



Steven L. Beshear  
Governor

Robert D. Vance, Secretary  
Environmental and Public  
Protection Cabinet

Larry R. Bond  
Commissioner  
Department of Public Protection

Commonwealth of Kentucky  
**Public Service Commission**  
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Mark David Goss  
Chairman

John W. Clay  
Vice Chairman

Caroline Pitt Clark  
Commissioner

Honorable Bill W. Adams  
Attorney at Law  
100 East Court Square  
P. O. Box 721  
Princeton, KY 42445

March 3, 2008

RE: Case No. 2007-00546

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell  
Executive Director

BOD/tw  
Enclosure



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Mr. Dixie Cayce  
Manager  
Caldwell County Water District  
118 West Market Street  
Princeton, KY 42445

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE CALDWELL COUNTY )  
WATER DISTRICT FOR THE APPROVAL OF ) CASE NO.  
THE PROPOSED INCREASE IN RATES FOR ) 2007-00546  
WATER SERVICE )

ORDER

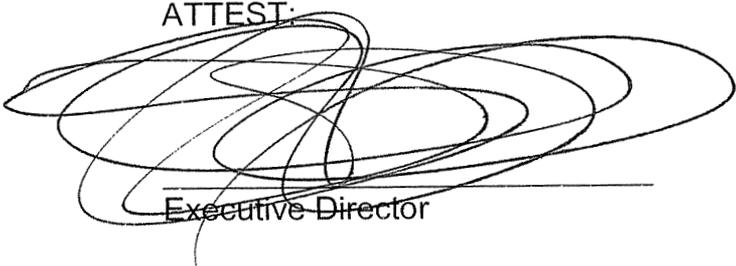
On December 19, 2007, Caldwell County Water District ("Caldwell District") applied to the Commission for an adjustment in water rates. Commission Staff, having performed a limited financial review of Caldwell District's operations, has prepared the attached report containing its findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference within 14 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. All parties shall, no later than 14 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or an informal conference.
2. Any party requesting a hearing shall include in its request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony that it would present at hearing.
3. If no requests for a hearing or an informal conference are received within 14 days of this Order, this case shall stand submitted to the Commission for decision.

Done at Frankfort, Kentucky, this 3rd day of March, 2008.  
By the Commission

ATTEST:

A large, complex, and somewhat illegible handwritten signature in black ink, consisting of multiple overlapping loops and lines.

Executive Director

STAFF REPORT  
ON  
CALDWELL COUNTY WATER DISTRICT  
CASE NO. 2007-00546

Pursuant to a request by Caldwell County Water District ("Caldwell District") for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of Caldwell District' test period operations, the calendar year ending December 31, 2006. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of its limited review, Staff presented to Caldwell District a draft rate application containing a pro forma income statement reflecting Staff's findings and recommendations. Caldwell District agreed with Staff's findings and recommendations, but modified the revenue requirement calculation to reflect the recovery of 25 percent of its pro forma depreciation expense. Caldwell District filed its rate application with the Commission on December 19, 2007.

Jason Green of the Commission's Division of Financial Analysis is responsible for the pro forma revenue adjustment and the calculation of the recommended rates. Mark Frost of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

Exhibit 3 of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test period

operating revenues and expenses that were known and measurable and deemed to be reasonable. Caldwell District determined that its requested pro forma operations would support a revenue requirement from water sales of \$973,822. The rates proposed by Caldwell District, as contained in Appendix B of this report, will increase the average residential bill from \$50.10 to \$58.45, an increase of \$8.35 or 16.662 percent. As shown in Appendix C of this report, Staff has determined that Caldwell District can justify a revenue requirement from water sales of \$869,970 to \$1,177,383. The water rates that will produce the revenue requirement of \$1,177,383 are contained in Appendix D.

Upon its review of the application and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$973,822 will allow Caldwell District to pay its adjusted test-period operating expenses, meet its debt service obligations, partially fund depreciation expense, and will result in a positive cash flow of \$121,829.<sup>1</sup> Staff further finds that Caldwell District's proposed rates will generate the annual revenue requirement of \$973,822 and are reasonable. Staff recommends that Caldwell District's proposed rates be approved.

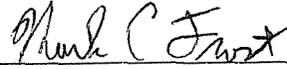
Upon reviewing the financial information contained herein, if Caldwell District deems that its requested revenue is insufficient, then Caldwell District may in its comments to the Staff Report, request the Commission modify the rates requested in the application. If the rates are modified, Staff recommends that the Commission

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<sup>1</sup> \$973,822 (Revenue Requirements) - \$711,420 (Pro Forma Operating Expenses) = \$262,402 (Net Operating Income) + \$79,157 (Depreciation and Amortization Expense) - \$219,730 (Annual Debt Service) = \$121,829.

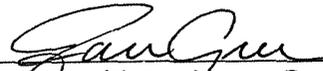
require Caldwell District to publish notice of those rates pursuant to 807 KAR 5:011,  
Section 8.

Signatures



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Prepared by: Mark C. Frost  
Financial Analyst, Water and Sewer  
Revenue Requirements Branch  
Division of Financial Analysis



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Prepared by: Jason Green  
Rate Analyst, Communications, Water  
and Sewer Rate Design Branch  
Division of Financial Analysis

APPENDIX A  
STAFF REPORT CASE NO. 2007-00546  
PRO FORMA INCOME STATEMENT

	Test-Period Operations	Pro Forma Adjustments	Adj. Ref	Pro Forma Operations
Operating Revenues:				
Metered Water Sales:				
Residential	\$ 804,550	\$ 1,777	(a)	\$ 806,327
Commercial	3,557	0		3,557
Industrial	1,113	0		1,113
Bulk Loading Stations	2,576	0		2,576
Operating Revenues	<u>\$ 811,796</u>	<u>\$ 1,777</u>		<u>\$ 813,573</u>
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages – Emp.	\$ 164,243	\$ 6,327	(b)	\$ 170,570
Salaries & Wages – Com.	3,600	0		3,600
Employee Pension & Benefits	30,859	9,747	(c)	40,606
Purchased Water	210,057	8,388	(d)	218,445
Purchased Power	0	0		0
Chemicals	701	0		701
Materials & Supplies	66,919	0		66,919
Contractual Services – Acc.	10,453	0		10,453
Contractual Services – Legal	7,382	(4,425)	(e)	2,957
Contractual Services – Other	31,118	(10,500)	(f)	20,618
Rental of Equipment	162	0		162
Insurance - Gen. Liability	13,287	1,000	(g)	14,287
Advertising	430	0		430
Bad Debt Expense	137	0		137
Miscellaneous	69,031	(4,273)	(h)	64,758
Total Operation & Maint.	<u>\$ 608,379</u>	<u>\$ 6,264</u>		<u>\$ 614,643</u>
Depreciation	302,498	1,844	(i)	304,342
Amortization	3,071	0		3,071
Taxes Other Than Income:				
PSC Assessment	3,781	0		3,781
Payroll Taxes	11,496	2,260	(j)	13,756
Other Tax & License	83	0		83
Utility Operating Expenses	<u>\$ 929,308</u>	<u>\$ 10,368</u>		<u>\$ 939,676</u>
Net Utility Operating Income	<u>\$ (117,512)</u>	<u>\$ (8,591)</u>		<u>\$ (126,103)</u>
Other Income & Deductions:				
Interest Income	12,828	0		12,828
Nonutility Income	11,867	0		11,867
Misc. Nonutility Exp.	(14,000)	14,000	(k)	0
Total Other Income & Ded.	<u>\$ 10,695</u>	<u>\$ 14,000</u>		<u>\$ 24,695</u>
Net Income Available for Debt Service	<u>\$ (106,817)</u>	<u>\$ 5,409</u>		<u>\$ (101,408)</u>

Adj. Ref.	Adjustment Description
(a)	<b>Revenue from Water Sales:</b> This adjustment reflects the results of Commission Staff's billing analysis and the current tariffed rates.
(b)	<b>Salaries &amp; Wages - Employees:</b> This adjustment reflects the test period actual hours and the July 2007 pay rates.
(c)	<b>Employee Pensions &amp; Benefits:</b> This adjustment reflects the current retirement contribution rate and the employee insurance premiums.
(d)	<b>Purchased Water:</b> This adjustment recognizes the current wholesale rate being charged to Caldwell District.
(e)	<b>Contractual Services Legal:</b> This adjustment removes legal fees that are connected to the construction project.
(f)	<b>Contractual Services Other:</b> This adjustment removes capital expenditures that were incorrectly expensed in the test-period.
(g)	<b>Workers Compensation Insurance:</b> This adjustment reflects the Normalized Payroll and the current workers compensation premiums.
(h)	<b>Miscellaneous (KIA Debt Servicing Fee):</b> This adjustment removes capital expenditures that were incorrectly expensed in the test-period.
(i)	<b>Depreciation:</b> This adjustment: (1) includes a full year of depreciation on test-period plant additions; (2) removes tap-on fees; and (3) depreciates plant that is financed with tap-on fees over their estimated useful lives.
(j)	<b>Payroll Taxes:</b> This adjustment computes payroll taxes using the normalized payroll.
(k)	<b>Miscellaneous Nonutility Expenses:</b> This adjustment removes capital expenditures that were incorrectly expensed in the test-period.

APPENDIX B  
STAFF REPORT CASE NO. 2007-00546  
REQUESTED AND RECOMMENDED  
WATER RATES

**RATES AND CHARGES**

First 1,000 Gallons	\$ 20.26	Minimum Bill
Next 3,000 Gallons	\$ 10.06	per 1,000 Gallons
Next 6,000 Gallons	\$ 8.01	per 1,000 Gallons
Next 20,000 Gallons	\$ 5.97	per 1,000 Gallons
Over 30,000 Gallons	\$ 5.10	per 1,000 Gallons

APPENDIX C  
STAFF REPORT CASE NO. 2007-00546  
REVENUE REQUIREMENT DETERMINATION

	Avg. Debt Service		Coverage		<u>Revenue Requirement Range</u>	
Debt Service Coverage: RD	\$ 206,996	x	0.2	=	\$ 41,399	\$ 41,399
Debt Service Coverage: KIA	\$ 12,733	x	0.1	=	1,273	1,273
Income From Operations					\$ 42,672	\$ 42,672
Add: Debt Service (RD & KIA)					219,730	219,730
Add: Operating Expenses					614,643	614,643
Depreciation					0	304,342
Amortization					0	3,071
Taxes Other Than Income					17,620	17,620
Total Revenue Requirement					\$ 894,665	\$ 1,202,078
Less: Other Income & Deductions					24,695	24,695
Revenue Requirement - Water Sales					\$ 869,970	\$ 1,177,383
Less: Pro Forma Operating Revenue					813,573	813,573
<b>Recommended Increase</b>					<b>\$ 56,397</b>	<b>\$ 363,810</b>
<b>Percentage Increase</b>					<b>6.932%</b>	<b>44.718%</b>

APPENDIX D  
STAFF REPORT CASE NO. 2007-00546  
RATES TO PRODUCE STAFF'S  
REVENUE REQUIREMENT

**RATES AND CHARGES**

First 1,000 Gallons	\$ 25.14	Minimum Bill
Next 3,000 Gallons	\$ 12.47	per 1,000 Gallons
Next 6,000 Gallons	\$ 9.94	per 1,000 Gallons
Next 20,000 Gallons	\$ 7.41	per 1,000 Gallons
Over 30,000 Gallons	\$ 6.32	per 1,000 Gallons